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SUBJECT: NIGERIA: NEW POWER SECTOR STRATEGIC PLAN

REF: A. ABUJA 1082
[1](#)B. ABUJA 962
[1](#)B. ABUJA 402
[1](#)C. 07 ABUJA 1582

SENSITIVE BUT UNCLASSIFIED - NOT FOR DISTRIBUTION OUTSIDE USG

[1](#)1. (SBU) SUMMARY. Upon taking office, President Yar'Adua made the power sector the first priority in his seven-point agenda. One year after the President's inauguration, Nigeria experiences regular power outages and load shedding due to a host of reasons. The major problems are inadequate maintenance of aged generating plants, poor gas supply, vandalization of gas pipelines, and a shortfall in water systems for hydro plants. Nigeria has a current installed generation capacity of 7,876 megawatts (MW) yet can only generate 2,700 MW on a daily basis (With actual generation sometimes dropping well below that level. We hear as late as June 22 that the daily MW output is down to 850 MW). In response, the Ministry of Energy (Power) has developed and presented to the President a short, medium and long-term recovery plan for the electricity sector. The Ministry estimates that the plan will cost \$20 billion over the next ten years. The plan and report appear to be well-thought out and if fully implemented could substantially improve power generation in the country, however, some high-level contacts have commented that the Power Holding Company of Nigeria (PHCN) may be re-bundled and that industry has dim views of the Minister of Power's abilities.
END SUMMARY.

POWER GENERATION UPDATE

[1](#)2. (SBU) The main power generation problems are inadequate maintenance of aged generating plants, poor gas supply, vandalization of gas pipelines, and a shortfall in water systems for hydro plants. In addition to the generating problems, the country's transmission and distribution networks are characterized by single circuit radial lines (which exacerbate the grid's fragility and increase the likelihood that a disruption in any part of the system will result in major power outages to a large section of the country, rather than just the immediately affected area), overloaded transformers, obsolete substation equipment, and high incidences of line tapping for electricity theft. The current capacity of the transmission grid is only 4,000 MW, well below national needs, and the grid does not cover every part of the country.

POWER MINISTRY STRATEGIC PLAN

[1](#)3. (SBU) The Ministry of Energy (Power) has been tasked to develop a plan to quickly increase energy generation in the short term and to provide a medium and long term sustainable growth strategy. According to Dr. Aliyu, Permanent Secretary of the Ministry of State for Energy (Power), the 73-page National Strategic Plan for the Sustainable Recovery of the Power Sector details short-term, medium-term, and long-term recovery and growth for the sector.

Power Minister Fatima Ibrahim has led the plan's development, but has faced criticism about her ability to implement and overcome difficult challenges. It covers generation, transmission, and distribution issues and provides a strategy for the recovery and growth of the sector. Funding for the plan will come from the 2008 budget, a proposed budget supplemental, independent power producers (IPP), and other public private partnerships (PPP). The Ministry estimates that the plan will cost \$20 billion over the next ten years. The document incorporates findings from a Power Ministry task force, the National Energy Sector Reform Committee chaired by Presidential Special Advisor on Energy Dr. Rilwanu Lukman, and the Presidential Committee on the Accelerated Expansion of Power Infrastructure, chaired by Minister Fatima Ibrahim.

REPORT FINDINGS

¶4. (SBU) The report and plan were submitted to President Yar'Adua on April 17 for his review. Embassy was also provided a copy for review and comment. The report noted that Minister Ibrahim had taken action to carefully examine and strengthen the coordination of the unbundled PHCN companies, which includes the appropriate transfer of employees, assets, liabilities, rights, and obligations of the PHCN to various successor companies by establishing a Transitional Board and Management for the PHCN. The Board is headed by Minister Ibrahim as Chairperson and the Permanent Secretary as Vice Chairperson. The membership of the Board includes PHCN Managing Director, Director General of the Bureau of Public Enterprise, Accountant General of the Federation, Director of Finance and Administration, Director of Technical and Commercial, MD/CEO of the Nigerian Gas Company, Group Executive Director (Finance and Administration) PHCN, Group Executive Director

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(Technical and Commercial) PHCN, and unnamed as yet, two to three presidential appointees.

¶5. (U) On background, following the enactment of the Electric Power Sector Reform (EPSR) Act of 2005 an initial holding company was established - the Power Holding Company of Nigeria (PHCN) to which the assets, liabilities and staff of National Electric Power Authority (NEPA) were transferred. Since then, the reform of the Nigerian electricity sector has achieved the unbundling of the previous single parastatal into 19 companies. A coordinator was appointed at PHCN headquarters to oversee the winding down of PHCN and the taking off of the 19 successor companies, which includes the transmission company that will remain under the ownership and operation of the GON. However reportedly, Honorary Adviser on Energy to the President, Dr. Rilwanu Lukman has recommended rebundling PHCN, which if done, would literally take things backwards.

¶6. (SBU) The report also revealed an important finding on distribution - there are a number of non-functioning transformers in the current distribution networks that require immediate replacement. Transformers, insulators, fuses, cables, and other maintenance materials were recently found in Power Holding Company of Nigeria (PHCN) warehouses that were purchased from 1988 - 2003. The report estimated the value of these materials and equipment at \$41 million. The warehoused materials were quickly inspected and allocated to the eleven distribution companies with orders to immediately install the equipment to re-enforce the distribution networks. This work is expected to be completed by July 2008.

POWER SECTOR FRAMEWORK AND USG SUPPORT

¶7. (SBU) The report noted that the Power Ministry asked the Ambassador, during a courtesy call in February 2008, for USG assistance in developing the Private Public Partnerships (PPP) framework for investments in power plants, transmission and distribution projects that include build, operate and transfer (BOT); build, operate, and own (BOO); and build, operate, own, and transfer (BOOT) or other appropriate contracting finance schemes. (Note: The meeting with the Ambassador actually took place on January 24, 2008 (see reftel B) and information was passed to the

U.S. Trade Development Agency (USTDA), which responded positively to the Ministry's requests and sent a delegation to follow up with the Power Minister and her team (see reftel A) End note).

USG SPONSORS CONFERENCE ON POWER SECTOR FINANCING

18. (SBU) As a first step forward, the Ambassador and EconOffs worked with the Lagos-based U.S. Commercial Service Office (USCS), U.S. Export-Import Bank (EXIM), USTDA, AID and offered a seminar on Independent Power Project (IPP) financing, which took place in Abuja from June 9-11. (The GON has issued 26 IPP licenses but each IPP has had problems that are yet to be resolved). USTDA commissioned a definition study in April 2008. Results and recommendations of this study were used to develop the seminar and should prove very helpful to the Power Ministry as it moves to implement the new strategic plan.

SHORT-TERM PLAN BY MARCH 2009

19. (SBU) The short term strategic plan is to generate, sustain, transmit, and distribute at least 5,800 MW of electricity by March 2009. The plan includes the fast track maintenance and rehabilitation of the eight existing GON plants established before 1999 that have a total installed capacity of 6,200 MW, with the goal of adding 3,150 MW by March 2009 and implementing the following measures:

- Providing adequate maintenance spares to existing plants;
- Building sufficient infrastructure and providing gas supply for the newly completed National Integrated Power Projects (NIPP) plants at Geregu (414 MW gas fired plant located at Ajaokuta in Kogi state, north central Nigeria), Omotosho (335 MW gas fired plant located in Ondo state, south west Nigeria), and Papalanto (335 MW gas fired plant located in Ogun state, south west Nigeria) with a total capacity of 1,084 MW. (Note: The gas pipelines for these projects may be ready by the end of June 2008; however, there may be only enough gas available to commission the plants at minimum loads. End note).
- Fast track maintenance and rehabilitation of the existing transmission grid capacity to increase wheeling power from 4,000 MW to 6,000 MW;
- Reinforce substations, replace transformers, establish strict adherence to maintenance of the grid, and upgrade the National Control Center;

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- Upgrade distribution networks to distribute the added electricity generation, replace transformers, and improve staff welfare packages and morale;
- Other actions include implementation of the build outs of the remaining seven NIPPs and review of the EPSR Act of 2005.

10. (SBU) Estimates for the short and medium-term plans were made on the basis of known generation plants and some planned projects. The plans include recommendations on what must be executed in order to reach and sustain the estimates of generating capacity for each phase, including the age and state of the existing plants. The Ministry recommends the release of funds, accredited to short and medium-term planning, for increasing Mambilla hydro-power plant to 2,600 MW (Currently 1,500 MW hydro-power plant located in Taraba state, north east Nigeria) and Zungeru (960 MW hydro-power plant located in Niger state, north central Nigeria, on the Kaduna River) hydro projects. The Mambilla plant will be Nigeria's largest plant and is estimated to take up to five years to come on line, as it requires three dams and an underground power station to be built. This project was awarded to two Chinese firms in 2005; and was to be executed partly through a loan facility of \$2.5 billion offered by the Export-Import Bank of China, in exchange for four oil bloc allocations to China National Offshore Oil Corporation during the May 2007 oil bid round. To date no progress has been made on the project. In June ministry contacts have told EconOff that a decision has been made for the GON to build the plant and the GON plans to ask U.S. EXIM for partial financing for the project.

MEDIUM-TERM PLAN BY MARCH 2011

¶11. (SBU) The strategic plan recognizes that the power sector is capital intensive, and recommends that the GON substantially deregulate in the medium term to encourage private sector participation. The medium-term plan expects to generate a total of 11,852 MW through:

- Consolidation of all gains realized in the short-term plan in all stations;
- Completion of the NIPP projects;
- Promoting the completion and/or rehabilitation of dams for the purpose of improving power generation through hydro at Dadin Kowa (34 MW), Gurara (30 MW), Oyan (9 MW), Bakalori (2.4 MW), Ikere Gorge (6 MW), Tiga (6 MW), and Chalawa (7 MW);
- Planning and implementation for more hydro plants, especially at the Mambilla and Zungeru hydro power plants;
- Encourage the development of medium size hydro plants on the Niger, Kaduna, Donga, Gereg, Onitsha, Benue, Ikom, and Katsina-Ala rivers which are located in the Niger Delta, Kaduna state, Taraba state, Niger state, Anambra state, Benue state, Cross River state and Benue state respectively;
- Expansion of the transmission and distribution networks to accommodate the added generation loads;
- Encouraging the development of a gas grid to accommodate the geo-political zones for power generation;
- Promoting the establishment of coal powered and renewable energy generation plants.

LONG-TERM PLAN BY DECEMBER 2020

¶12. (SBU) The long-term plan focuses on the continuation of the development of a gas grid and continued expansion of the national grid throughout the country as a top priority. Other elements of the plan include:

- Monitoring the development of new power plants based on effective and reliable generation mix;
- Providing the legal, fiscal, administrative, and regulatory environment for the setting-up of power related industries;
- Increasing, progressively, the proportion of renewable energy;
- Adding nuclear energy to the generation mix;
- Commissioning of the Mambilla and Zungeru hydro plants adds 3,550 MW to the national grid providing electricity to a power starved nation at a lower cost than gas or coal.

COMMENT

¶13. (SBU) The USG is working very closely with the Ministry of Power and other GON agencies to put into place the right framework to attract sustained private sector financing to the power sector. The GON has an unending appetite for USG expertise in this area and it behooves us to take advantage of this engagement.

¶14. (SBU) The crux of the electricity problem is implementation and follow through. The President and his advisors have little to show to the Nigerian people after one year of empty promises. Electricity generation will provide an easy barometer for the people

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to determine whether the President has delivered on his numerous promises. As of now, Vision 2020 and 13% yearly GDP growth are a mirage. We believe that Ministry officials are sincere in their motives and the strategic plan appears to be well-thought out and if implemented could improve power generation substantially. However, some high-level contacts have commented that the Power Holding Company of Nigeria (PHCN) may be re-bundled and that industry has dim views of Minister of Power's abilities to follow through on implementation because she has no previous power sector background. In addition, with daily MW output allegedly down to 850 MW, power distribution has worsened under her leadership. The next 6-12 months will demonstrate the administration's ability to improve power generation.

SANDERS